

**From:** Pollack, Larry (Detroit) [larry.pollack@watsonwyatt.com]  
**Sent:** Saturday, August 30, 2008 9:33 PM  
**To:** picpubplanswritten  
**Subject:** Comments on AAA Statement on Disclosure of Market Value of Assets and Liabilities for public pension plans

The views here are mine only.

I'm writing because I'm concerned that most views expressed from the peanut gallery of the profession will be from those who work with public sector plans and are opposed to disclosure for the sake of their client contacts (which is understandable). I don't work with public plans, and write as a citizen who is a private sector pension actuary.

I believe market values should be disclosed. It is important, and only fair, that the public has an opportunity to assess how the market might value the funded status of a plan for which it is ultimately financially responsible.

I've read newspaper accounts of public officials fixing pension deficits by selling bonds and investing the proceeds in the pension plan, producing an immediate net economic gain for the municipality. (At least, that's how I understand what's being reported, almost always uncritically. I believe the city of Detroit did this within the last few years.) I can only infer that the basis for this reported gain is that the pension assets are presumed to earn a higher return than the interest being paid on the debt, and that the discounted present value of the projected difference in cash flows is being immediately recognized in some fashion. This reasoning is as faulty as someone buying stocks on margin and declaring an immediate increase in his personal net worth. Reporting such an increase would be fraudulent if used for any practical purpose (such as applying for a mortgage). Yet public officials apparently make such claims, and the actuarial profession remains silent.

The actuarial profession is well qualified to make clear what is happening, and to the extent we believe ourselves to have any role in public discourse, we have a responsibility to do so. Requiring the disclosure of market values would lay bare such logical fallacies of public officials pertaining to pensions.

Some of the arguments against disclosure I've heard from friends who work on public sector plans include:

- 1) There is no agreed on measure of the market value of liabilities (MVL)
- 2) The public won't understand the actual meaning, and it will cause undue alarm
- 3) Such disclosure will lead to bad funding decisions
- 4) Such disclosure will lead to bad investment decisions

The argument that MVL can't be measured is the same as one of the arguments against recognizing the value of stock options granted to executives in public corporations. There is, I think, a fairly clear theoretical value of MVL: the amount that the market would pay for a bond backed by the municipality having the same cashflows as the pension liabilities. Even though the value cannot be determined with certainty, we should take a crack at it, as companies do with stock options. There clearly is value, even if we don't know exactly what it is. Estimating such values is at bottom what the actuarial profession is all about. I've heard it argued that 13th checks, which are only paid if the plan is well funded, can't be valued. Again, this is very similar to a stock option in that it clearly has value, and so shouldn't be ignored. We just need to do the best we can.

The fact that the public isn't as sophisticated as actuaries is no excuse not to disclose. Willful nondisclosure of information in which the public clearly has an interest is the kind of intellectual elitism that ultimately results in corruption. The deficiency is ours if we can't explain something in a reasonably understandable way.

That such disclosure may lead to bad funding or investment decisions is related to the fear that people won't understand the situation. I view proper funding and investment policy as distinct from disclosure. Market values are inputs into the decision, which must also be based on philosophies as to (1) whether it is appropriate to accept a mismatch between assets and liabilities to ultimately realize greater asset returns, and (2) the period over which funding deficiencies must be corrected, recognizing that assets may be expected to appreciate more than liabilities. The fact that there are different possible philosophies as to investments and funding policy is not a valid argument against the disclosure of market values, nor, for example, does such disclosure preclude the use of liability measures calculated from cashflows discounted at an expected asset return for determining appropriate funding amounts. Those are important topics that should be discussed within the profession, but they have nothing to do with whether market values should be disclosed.

**Lawrence I. Pollack, FSA**

Watson Wyatt Worldwide

28411 Northwestern Highway, Suite 500 | Southfield, MI, 48034

Phone: 248.936.7437 | Fax: 248.936.7714 | Cell: 313.580.4464

[larry.pollack@watsonwyatt.com](mailto:larry.pollack@watsonwyatt.com)

[www.watsonwyatt.com](http://www.watsonwyatt.com)